

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOT-00 INR-07 NSAE-00 CIEP-01 FAA-00 SSO-00 NSCE-00

INRE-00 L-03 SS-15 NSC-05 /048 W

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O 180709Z OCT 76

FM AMEMBASSY SINGAPORE

TO SECSTATE WASHDC IMMEDIATE 6367

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FOR EB/OA; PASS TO CAB

E.O. 11652: N/A

TAGS: EAIR, SN

SUBJECT: CIVAIR - NEW CAB APPROVED FREIGHT RATES FOR ELECTRONICS

1. SUMMARY. GOS MINISTRY OF COMMUNICATIONS HAS INDICATED TO US IN STRONG LANGUAGE ITS CONCERN ABOUT CIVIL AERONAUTICS BOARD'S APPROVAL OF HIGHER AIR FREIGHT RATES FOR ELECTRONIC PRODUCTS ACROSS PACIFIC. ITS CONCERN IS WITH THE HIGH PERCENTAGE INCREASE ALLOCATED TO THE SAN FRANCISCO/SINGAPORE SECTOR AND THE DISPARITY IN THE PERCENTAGE INCREASE FOR DIFFERENT SECTORS, WHICH IT BELIEVES WILL ADVERSELY AFFECT SINGAPORE'S ELECTRONICS INDUSTRY. ACCORDING TO GOS, THE NEW RATES WILL BE IMPLEMENTED IN TWO STAGES WITH THE FIRST STAGE GOING INTO EFFECT ON OCTOBER 18, 1976, AND FINAL IMPLEMENTATION SCHEDULED FOR JANUARY 1, 1977. THEREFORE, GOS HAS REQUESTED OUR ASSISTANCE IN REGISTERING ITS CONCERN BY TRANSMITTING FOLLOWING AIDE MEMOIRE.

ACTION REQUESTED: PLEASE PROVIDE EMBASSY WITH APPROPRIATE RESPONSE TO GOS. END SUMMARY.

2. AIDE MEMOIRE RECEIVED FROM THE GOVERNMENT OF SINGAPORE ON OCTOBER 15, 1976, CONCERNING US CAB APPROVED AIR FREIGHT RATES INCREASE FOR ELECTRONIC PRODUCTS ACROSS THE PACIFIC -- QUOTE:

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A. THE ELECTRONICS INDUSTRY IN SINGAPORE HAS BROUGHT TO THE GOVERNMENT'S ATTENTION THAT THE CIVIL AERONAUTICS BOARD (CAB) OF THE UNITED STATES HAS RULED IN FAVOUR OF THE CARRIERS WITH RESPECT TO AIR FREIGHT RATES FOR ELECTRONIC PRODUCTS ACROSS THE PACIFIC. THIS RULING WILL BRING THE RATE FOR THE SAN FRANCISCO TO SINGAPORE ROUTE UP BY 58.8 PERCENT FROM ITS CURRENT RATE OF US\$0.68 PER LB TO US\$1.08 PER LB. THE CAB APPROVED RATES ARE SCHEDULED TO GO INTO EFFECT IN TWO STAGES WITH FINAL IMPLEMENTATION ON 1 JANUARY 1977.

B. IT HAS ALSO BEEN BROUGHT TO THE SINGAPORE GOVERNMENT'S NOTICE THAT THE CAB HAS NOT ACCORDED UNIFORM INCREASES TO OTHER ROUTES ACROSS THE PACIFIC. THE APPROVED NEW RATES FOR SAN FRANCISCO TO HONG KONG, TO TOKYO, TO MANILA AND TO TAIPEH ARE US\$0.83 0.76, 0.83 AND 0.83 PER LB RESPECTIVELY. THE RESULTANT PERCENTAGE INCREASE/DECREASE ARE (PLUS) 31.7, (PLUS) 4.1, (MINUS) 5.7 AND (PLUS) 22.1 RESPECTIVELY OVER THE CURRENT RATES WHICH IN SEQUENTIAL ORDER ARE US\$0.63, 0.73, 0.88 AND 0.68 PER LB. THE APPROVED NEW RATES CLEARLY SHOW SIGNIFICANT DISCRIMINATION AGAINST SINGAPORE.

C. THE SINGAPORE GOVERNMENT STRONGLY OPPOSES SUCH AN UNFAIRLY ALLOCATED INCREASE IN FREIGHT RATES. THIS WILL NOT ONLY REDUCE THE COMPETITIVENESS OF SINGAPORE'S ELECTRONIC PRODUCTS BUT WOULD ALSO ERODE THE ATTRACTION OF SINGAPORE AS A MANUFACTURING BASE FOR ELECTRONIC PRODUCTS. THE INCREASES WILL THEREFORE CAUSE SEVERE REPERCUSSIONS ON SINGAPORE'S ECONOMY AS THE ELECTRONICS INDUSTRY IS ONE OF THE LARGEST INDUSTRIES IN SINGAPORE AND SINGAPORE IS HEAVILY DEPENDENT ON A CONTINUING FLOW OF FOREIGN INVESTMENTS.

D. THE MODEST SIZE OF THE LOCAL MARKET HAS NECESSITATED THAT THE ECONOMIC GROWTH OF SINGAPORE BE LARGELY DEPENDENT ON THE SUCCESS OF ITS EXPORT-ORIENTED INDUSTRIES. THE VIABILITY OF THESE INDUSTRIES ALSO DEPENDS ON THE ABILITY OF IMPORTING ALL RAW MATERIALS AT REASONABLE PRICES AS SINGAPORE SUFFERS FROM A LACK OF NATURAL RESOURCES.

E. ELECTRONICS STANDS TODAY AS ONE OF THE LARGEST MANUFACTURING INDUSTRIES IN SINGAPORE, WITH OUTPUT OF MORE THAN US\$477M IN LIMITED OFFICIAL USE

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1975. FOR MANY COMPANIES, 90 PERCENT OF RAW MATERIALS ARE IMPORTED BY AIR FROM THE UNITED STATES. THE APPROVED HIKE IN FREIGHT RATES FROM SAN FRANCISCO TO SINGAPORE WILL MEAN A SIGNIFICANT INCREASE IN THE PRODUCTION COSTS OF ELECTRONIC PRODUCTS RESULTING IN SUBSTANTIAL REDUCTION OF COMPETITIVENESS OF SINGAPORE'S ELECTRONIC PRODUCTS. SEVERAL ELECTRONIC COMPANIES, EXPRESSING DEEP CONCERN OVER THE FREIGHT INCREASE, HAVE INDICATED THAT THEY WOULD BE FORCED TO CONSIDER TRANSFERRING

OPERATIONS TO ANOTHER LOCATION. THIS WILL RESULT IN RETRENCHMENT OF WORKERS IN SINGAPORE. THIS WILL ALSO ADVERSELY AFFECT THE INFLOW OF FOREIGN INVESTMENT ON WHICH THE VIABILITY OF SINGAPORE'S ECONOMY IS SO HEAVILY DEPENDENT.

F. THE SINGAPORE GOVERNMENT DEMANDS THAT JUSTIFICATIONS BE KNOWN BY CAB FOR APPROVING THE HIGHEST PERCENTAGE INCREASE AND THE HIGHEST FREIGHT RATE FOR THE ROUTE FROM SAN FRANCISCO TO SINGAPORE.

G. THE MAJOR CONCLUSION OF CAB'S DOMESTIC PASSENGER FARES INVESTIGATION, PHASE 9, ORDER 73-4-83, IS THAT THE UNIT COSTS FOR LONG HAUL SERVICES IS SUBSTANTIALLY LOWER THAN UNIT COSTS FOR SHORT HAUL SERVICES, AND THAT FARES SHOULD BE FIXED TO REFLECT THE LOWER UNIT COSTS IN THE LONGER MILEAGES. SINGAPORE IS THE FURTHER AWAY FROM SAN FRANCISCO COMPARED WITH OTHER LOCATIONS UNDER CONSIDERATION; AND WITH HANDLING COSTS AT A COMPETITIVE LEVEL COMPARED TO THE OTHER LOCATIONS, THE AVERAGE UNIT COSTS FOR THE ROUTE SHOULD THEREFORE BE IN FACT LOWER.
HOLDRIDGE

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H. CAB'S ORDER 75-12-149 PAE 9 STATES THAT MOST OF THE ELECTRONICS TRAFFIC MOVE AT THE HIGHEST WEIGHT BREAKS. IT IS THE USUAL PRACTICE OF THE AIRLINES TO CHARGE A LOWER RATE PER KG FOR A SHIPMENT WEIGHING OVER 1,000 KG THAN FOR A 500 KG SHIPMENT

AS IT COSTS ABOUT THE SAME TO LOAD A 1,000 KG SHIPMENT AS A 500 KG SHIPMENT. MOST OF THE RAW MATERIALS IMPORTED BY SINGAPORE FROM THE STATES ARE AT THE HIGHESE WEIGHT BREAKS. THIS MEANS THAT THE AVERAGE UNIT COST OF CARRYING ELECTRONIC PRODUCTS FROM SAN FRANCISCO TO SINGAPORE HAS ALWAYS BEEN LOW.

I. IN VIEW OF THE FOREGOING, CAB CONTRADICTS ITS OWN FINDINGS IN ALLOCATING THE HIGHESE PERCENTAGE INCREASE AND THE HIGHEST FREIGHT RATE FOR THE SAN FRANCISCO TO SINGAPORE ROUTE. IN DOING SO, SINGAPORE'S ELECTRONICS INDUSTRY, WHICH MAINLY CONSISTS OF AMERICAN INVESTMENTS, IS PUT INTO A PRECARIOUS POSITION. FURTHER INFLOW OF INVESTMENTS IN THE ELECTRONICS INDUSTRY WILL BE SEVERELY RETARDED AND THERE MAY EVEN BE A REDUCTION IN EXISTING INVESTMENTS. THE FREIGHT INCREASE WILL THEREFORE HAVE AN ADVERSE IMPACT ON SINGAPORE'S ECONOMY AND FUTURE GROWTH. ECONOMIC RELATIONS BETWEEN SINGAPORE AND USA HAVE ALWAYS BEEN ON THE MOST FRIENDLY TERMS. US INVESTMENTS AND US INTERESTS IN REGIONAL TRADE HAVE ALWAYS BEEN GIVEN THE MOST FAVOURABLE TREATMENT IN SINGAPORE. THE SINGAPORE GOVERNMENT THEREFORE STRONGLY REQUESTS THAT URGENT RECONSIDERATION BE GIVEN BY CAB TO REMOVE THE INEQUITABLE TREATMENT PLACED ON THE AIR LIMITED OFFICIAL USE

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FREIGHT RATE FROM SAN FRANCISCO TO SINGAPORE. SINGAPORE FURTHER SEEKS REASSURANCE THAT THE US GOVERNMENT WILL ALSO MAINTAIN EQUITABLE TREATMENT IN THE FUTURE. END QUOTE

3. EMBASSY COMMENT:

WHILE GOS MAY BE SOMEWHAT OVERSTATING THE CASE IN CLAIMING THAT THE SINGAPORE ELECTRONICS INDUSTRY CONSISTS MAINLY OF AMERICAN INVESTMENTS, SINGAPORE IS HEAVILY DEPENDENT ON U.S.-MADE ELECTRONIC COMPONENTS. SOME TWENTY U.S. FIRMS WITH OVER US\$200 MILLION INVESTED, PURCHASE LARGE QUANTITIES OF INTEGRATED CIRCUITS AND SEMICONDUCTORS IN CHIP OR WAFER FORM FROM THEIR U.S. PARENT COMPANIES. U.S. 1975 EXPORTS OFELECTRONIC COMPONENTS AND PARTS TO SINGAPORE WERE IN EXCESS OF US\$150 MILLION.

4. ACTION REQUESTED:

PLEASE ADVISE APPROPRIATE RESPONSE TO GOS AIDE MEMOIRE.
HOLDRIDGE

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Message Attributes

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